



November 29, 2012

Mr. Jeff R. Derouen, Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40601

Subject: KPSC Case No. 2007-00551  
Interim Hedge Report

Dear Mr. Derouen:

Atmos Energy Corporation (Company) herewith submits an original non re-dacted and ten (10) re-dacted copies of the interim hedge report pursuant to the Ordering Paragraph 4 of the Commission's Order dated April 8, 2008 in the above referenced proceeding. Exhibits A-C are CONFIDENTIAL and will be filed with a petition of confidentiality.

Please contact either myself at 270.685.8024 or Len Matheny at 270.685.8062 if the Commission or Staff has any questions regarding the enclosed report.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Martin".

Mark A. Martin  
Vice President, Rates & Regulatory Affairs

Enclosures

cc: Randy Hutchinson  
Doug Walther  
Don Erickson

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE INTERIM REPORT OF ATMOS ENERGY CORPORATION  
ON ITS HEDGING PROGRAM FOR THE 2012-2013  
HEATING SEASON

Case No. 2007-00551

**MOTION TO ACCEPT INTERIM REPORT OF HEDGING PROGRAM  
FOR THE 2012-2013 HEATING SEASON**

Comes now, Atmos Energy Corporation ("Atmos Energy") and pursuant to the Commission's Order of April 8, 2008, files herewith its Interim Report for the 2012-2013 Heating Season identifying, inter alia, gas costs realized under Atmos' hedging program. Atmos Energy respectfully moves the Commission to accept the attached Interim Hedging Report for the 2012-2013 Heating Season.

Respectfully submitted this 29th day of November, 2012.



Mark R. Hutchinson  
611 Frederica Street  
Owensboro, Kentucky 42301

Douglas Walther  
ATMOS ENERGY CORPORATION  
PO Box 650250  
Dallas, Texas 75265

**CERTIFICATE OF SERVICE**

I hereby certify that on the 29th day of November, 2012 the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were sent by overnight delivery to the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40206.



Mark R. Hutchinson

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE INTERIM REPORT OF ATMOS ENERGY CORPORATION  
ON ITS HEDGING PROGRAM FOR THE 2012-2013  
HEATING SEASON

Case No. 2007-00551

**PETITION FOR CONFIDENTIALITY OF SCHEDULES  
TO ATMOS' INTERIM HEDGING REPORT**

Atmos Energy Corporation ("Atmos Energy") respectfully petitions the Kentucky Public Service Commission ("Commission"), pursuant to 807 KAR 5:001 Section 7, and all other applicable law, for confidential treatment of the attached schedules to Atmos Energy's Interim Hedging Report for the 2012-2013 heating season.

1. On April 8, 2008 the Commission entered an Order in this proceeding approving Atmos Energy's hedging program for a five (5) year period ending March 31, 2013. The Commission's Order further directed Atmos Energy to file interim and final hedging reports as required by the Commission in its approvals of Atmos' previous hedging programs.

2. The attachments to the Petition contain sensitive pricing information and confidential information about Atmos Energy's hedging strategies. Atmos Energy's hedging strategies (including the prices Atmos Energy would likely pay for hedging contracts under various market conditions) constitutes sensitive, proprietary information which if publicly disclosed could put Atmos Energy at a commercial disadvantage in future hedging negotiations. Prospective brokers of hedging devices would gain insight into how Atmos Energy is likely to react to changing market conditions in terms of what Atmos Energy might be willing to pay for hedging contracts. This information would not otherwise be available. Although the full extent to which Atmos Energy would be disadvantaged in future negotiations is difficult to predict, it is clear that Atmos Energy would likely be disadvantaged in future negotiations if the information contained in the attachments to this Petition is made public.

3. Atmos Energy would not, as a matter of company policy, disclose information like that contained in the attachments to any person or entity, except as required by law or pursuant to a court order or subpoena. Atmos Energy's internal practices and policies are directed towards non-disclosure of the attached information. In fact, the information contained in the attached schedules is not disclosed to any personnel of Atmos Energy except those who need to know in order to discharge their responsibility. Atmos Energy has never disclosed such information publicly. This information is not customarily disclosed to the public and is generally recognized as confidential and proprietary in the industry. The Commission has historically granted Atmos Energy confidential protection to information concerning the actual price being paid by Atmos Energy to individual marketing companies and other suppliers of natural gas.

4. There is no significant interest in public disclosure of the information contained in the attached schedules. Any public interest in favor of disclosure of the information is out weighed by the competitive interest in keeping the information confidential.

5. The information contained in the attached schedules is also entitled to confidential treatment because it constitutes a trade secret under the two prong test of KRS 265.880: (a) the economic value of the information is derived by not being readily ascertainable by other persons who might obtain economic value by its disclosure and (b) the information is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The economic value of this information is derived by Atmos Energy maintaining the confidentiality of the information since prospective brokers could obtain economic value by its disclosure.

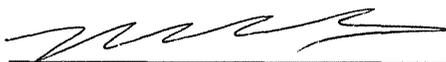
6. Pursuant to 807 KAR 5:001, Section 7 (3), temporary confidentiality of the attached schedules should be maintained until the Commission enters an order as to this Petition. Once the order regarding confidentiality has been issued, Atmos Energy would have twenty (20) days to seek alternative remedies pursuant to 807 KAR 5:0001, Section 7 (4).

7. In Atmos Energy's previous hedging cases, the Commission has granted confidential protection to

the same type of information for which confidential protection is now requested.

WHEREFORE, Atmos Energy petitions the Commission to treat as confidential the attached schedules consisting of 13 pages and marked as "CONFIDENTIAL".

Respectfully submitted this 29 day of November, 2012.



Mark R. Hutchinson  
611 Frederica Street  
Owensboro, Kentucky 42301

Douglas Walther  
ATMOS ENERGY CORPORATION  
PO Box 650250  
Dallas, Texas 75265

#### VERIFICATION

I, Mark A. Martin, being duly sworn under oath state that I am Vice President of Rates and Regulatory Affairs for Atmos Energy Corporation, Kentucky/Midstates Division, and that the statements contained in the foregoing Petition are true as I verily believe.



Mark A. Martin

#### CERTIFICATE OF SERVICE

I hereby certify that on the 29<sup>th</sup> day of November, 2012 the original of this Petition, with the Confidential Information for which confidential treatment is sought, together with ten (10) copies of the Petition without the confidential information, were sent by overnight delivery to the Kentucky Public Service Commission, 211 Sower Boulevard, P.O. Box 615, Frankfort, Kentucky 40206.



Mark R. Hutchinson

**ATMOS ENERGY CORPORATION  
KENTUCKY DIVISION  
INTERIM HEDGING REPORT  
CASE NO. 2007-00551**

The Kentucky Public Service Commission ("Commission") requested in its Order in Case No. 2007-00551 that Atmos Energy Corporation ("Atmos Energy" or "Atmos") provide the Commission with an interim hedging report. The report is to follow the requirements outlined in Case No. 1997-00513 to provide a brief narrative discussion of the factors that influenced Atmos Energy's purchasing decisions, including, but not limited to:

1. Futures prices at the time of purchasing decisions
2. Market price trends at the time of purchasing decisions
3. Market price forecasts at the time of purchasing decisions
4. Nationwide storage levels, and Atmos' own on-system storage levels, at the time of purchasing decisions
5. Data summary of all hedging transactions
6. Hedge transactions accounting entries

*Atmos Energy's Hedging Strategy*

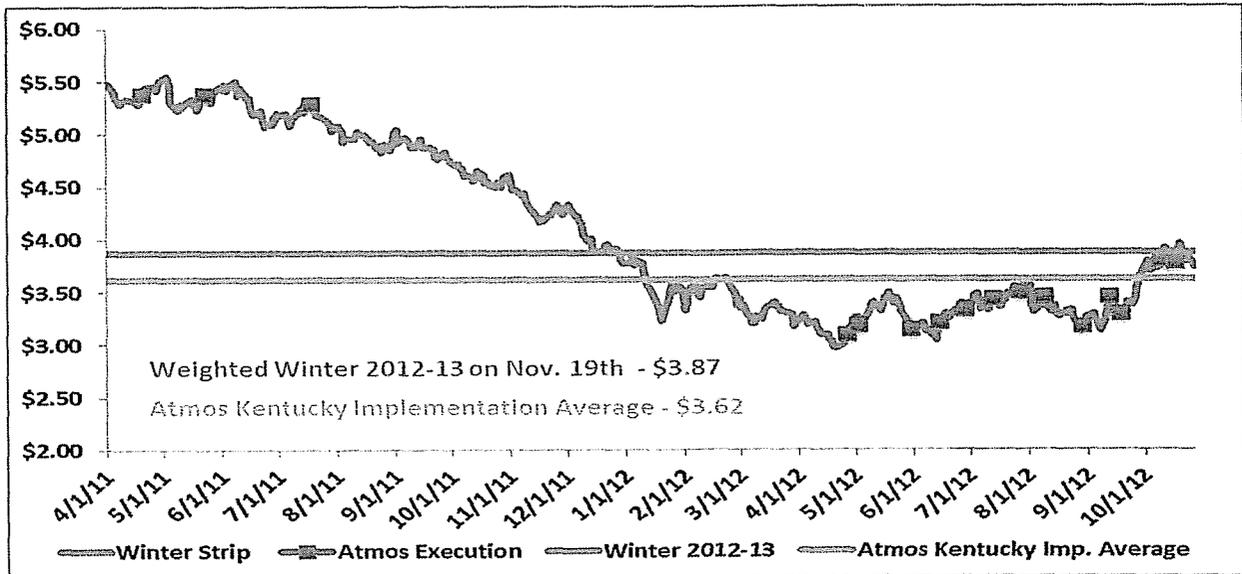
Atmos Energy, based on its experience in the past and upon direction from the Commission, developed a set of parameters under which a hedging program would be initiated. On March 8<sup>th</sup>, 2012 Atmos met with Commission Staff to review the program and discuss the ability to utilize call options in addition to swaps within Atmos' Kentucky hedging program. Atmos filed an application on March 22<sup>nd</sup> to modify its hedging program to include options. On April 24<sup>th</sup> the Commission granted Atmos the ability to utilize options in Case No. 2012-00110. The parameters for winter 2012-13 were:

- a. Hedging term is for up to two winter seasons (November through March).
- b. Financial hedges would consist of swaps and/or options.
- c. Upon completion of the 2012 implementation period a minimum of 0% and a maximum of 50% of normalized expected purchases net of storage would be hedged for each 2012-13 winter month.
- d. The hedging plan incorporates the most recent load study volumes available. Plan volumes will be updated when a more current load study is available, and the updated volumes materially impact the remaining non-hedged volume.
- e. The Kentucky Public Service Commission will be notified of material variances from the plan.
- f. Atmos will enter hedging arrangements in response to changes in market conditions as directed in case no. 2003-00192. For winter 2012-13 purchases will be made from April 2011 through October 2011 and April 2012 through October 2012. The two year implementation will allow Atmos to weight the price across the projected purchase periods. Based on advice from Atmos' consultant, Gelber and Associates, Atmos will adjust the timing and volumes of hedge instrument purchases.

*Atmos Energy's Purchasing Decisions*

Exhibit A summarizes hedging transactions, dates and details including forecasts (with the NYMEX closing price on the day of implementation as the best indication of future market prices) available at the time the transactions were implemented.

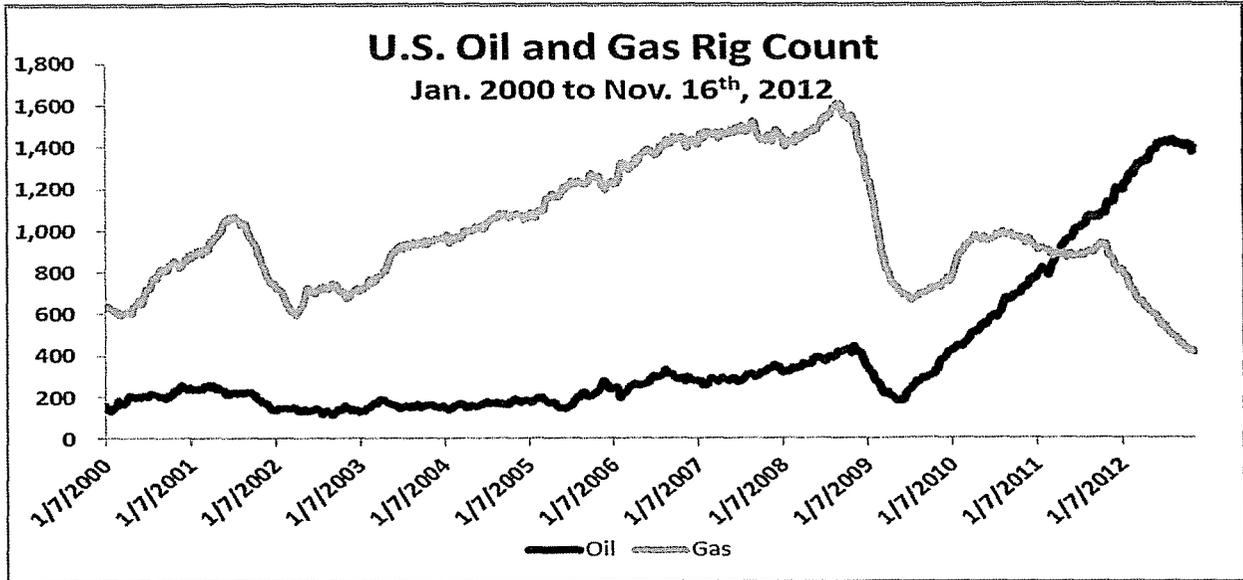
Please refer to the chart below showing the 2012-13 winter strip (contracts November 2012 through March 2013) futures pricing from April 2011 through October 2012. The red points indicate dates on which Atmos executed hedging transactions. Atmos implemented over two periods from April 2011 through October 2011 and April 2012 through October 2012. The total weighted average hedge price for the 2012-13 Atmos Kentucky winter period was \$3.62. On November 19<sup>th</sup>, 2012 the 2012-13 weighted winter average price was \$3.87. Atmos' hedging plan allows for up to 50% of expected winter purchases (or 2,332,000 MMBtu) to be hedged and actually hedged 32% (or 1,475,200 MMBtu).



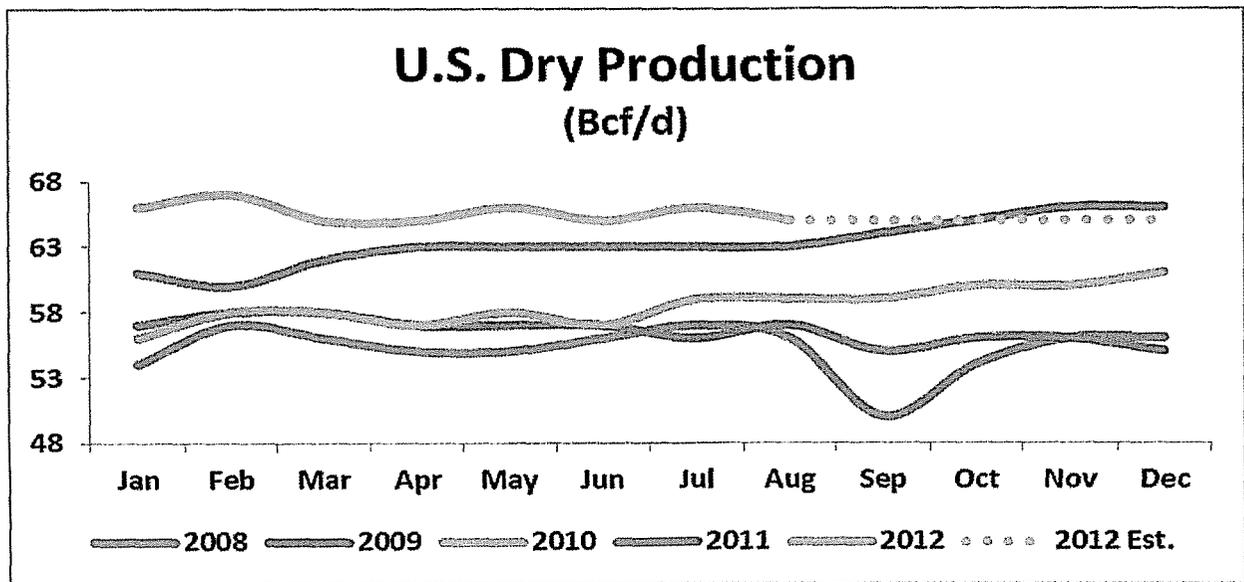
*Market Conditions*

**Production**

Producers continue to shift their focus from drilling for dry natural gas to the more lucrative oil and liquid shale plays. The natural gas rig count of 417 (as of November 16<sup>th</sup>) has not been at these levels since 1999. The chart below shows the oil and natural gas rig count from January 2000 to November 16<sup>th</sup>.



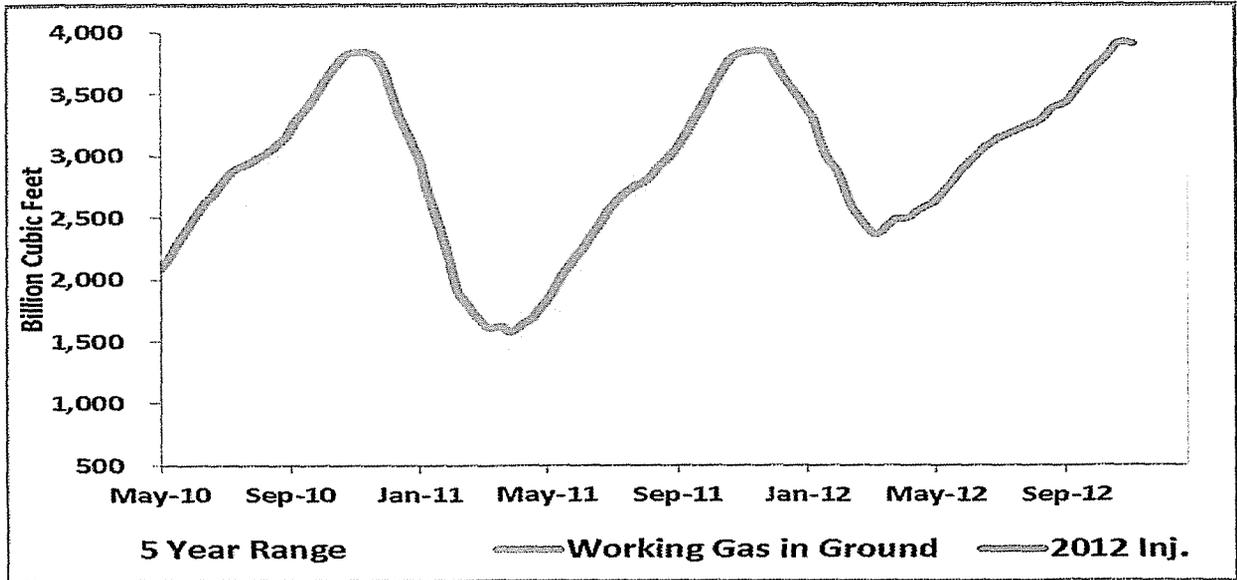
Dry natural gas production for December 2011 was 66 Bcf/d and increased to a high of 67 Bcf/d by February 2012. From March through August (the latest data available) production dropped to 65 Bcf/d and will fall below 2011 if levels do not increase through the end of the year. Please see the chart below for actual U.S. Dry Natural Gas Production from January 2008 through August 2012 and estimated September 2012 through December 2012 (using August 2012 production levels).



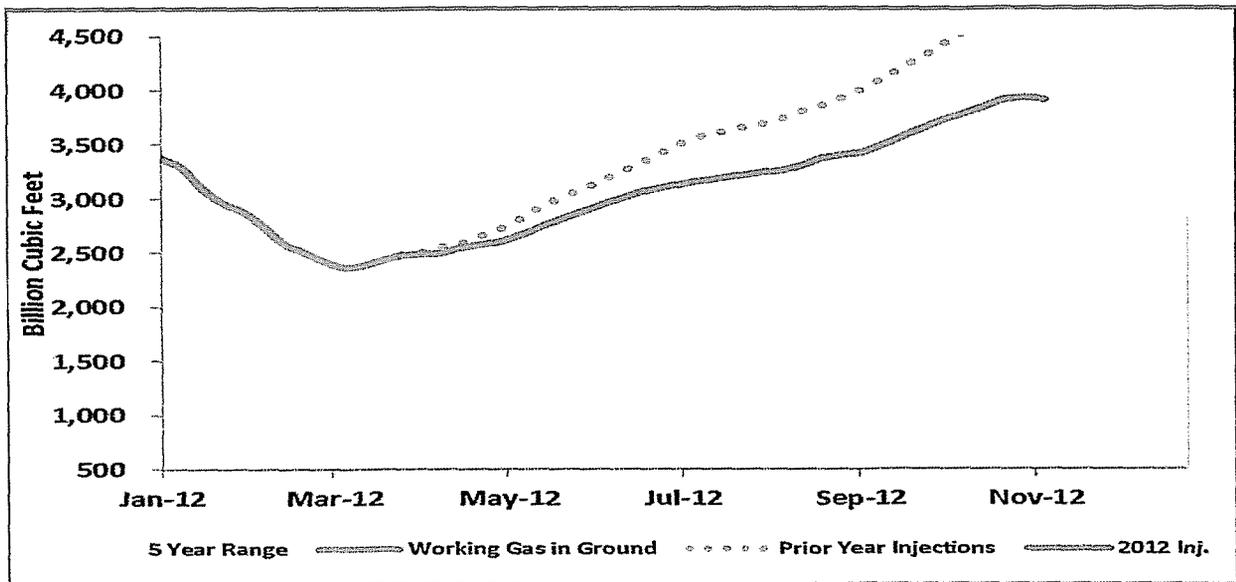
#### Storage

Due to winter 2011-12 being the second warmest winter since 1895 (as reported by NOAA), storage levels coming out of the winter were at a seasonal record high. Working gas in underground storage as of March 30<sup>th</sup>, 2012 was 2,479 Bcf which was 887 Bcf higher than the same time in 2011 and 934 Bcf higher than the five year average. A new seasonal record high was achieved each week through

the injection period with a new all-time high of 3,929 Bcf reached on November 2<sup>nd</sup>, 2012. Please see the chart below showing the gas in underground storage from May 2010 through November 2<sup>nd</sup>, 2012 with the red line indicating activity from April 2012 through November 2012.

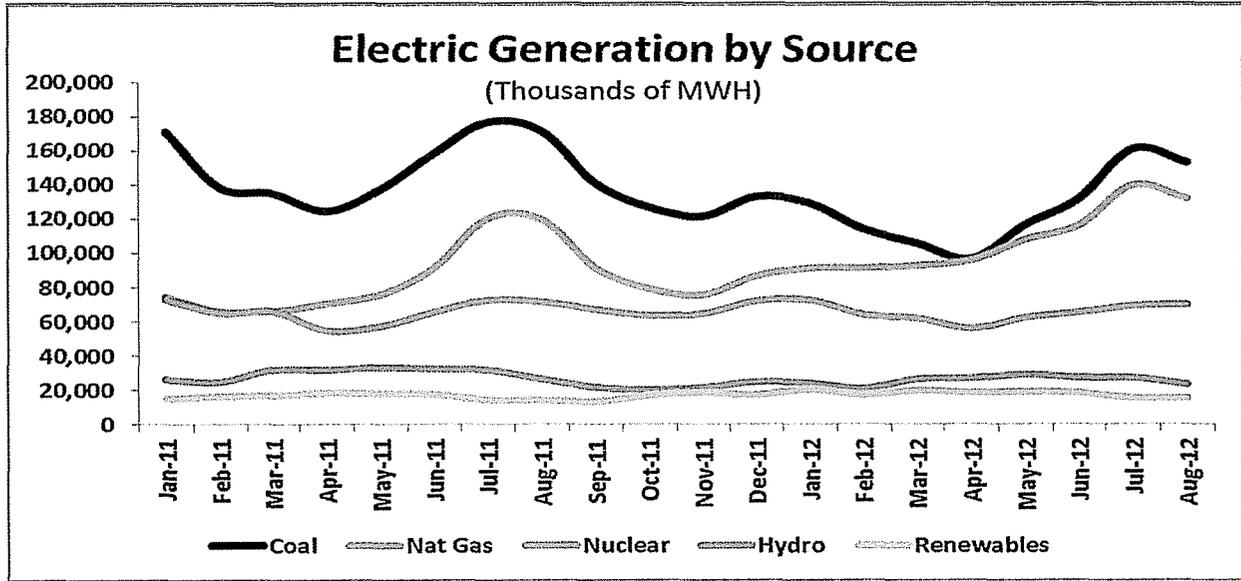


Although overall storage levels were high, seasonal injections were actually lower than 2011. The storage surplus compared to 2011 and the five year average was reduced to 109 Bcf and 244 Bcf (respectively) by the end of October. Increased demand mainly from electric generation reduced the amount of gas being injected through 2012. The chart below shows the injection activity for 2012 and what storage levels would have been if injections for 2012 matched 2011.



## Demand

As stated above demand from electric generation during 2012 has greatly increased compared to previous years. As measured by thousands of mega-watt hours, gas used for electric generation reached an all-time high in July 2012 (with monthly data from the Energy Information Administration going back to 1973). The chart below shows electric generation by source from January 2011 through August 2012 (the latest available).



### *Impact of Atmos Energy Storage*

Atmos develops seasonal summer and winter supply plans which project its storage injection and withdrawal levels. Historically, Atmos has planned to inject on essentially a ratable basis, both Atmos owned storage and pipeline storage, across the injection season (April through October). Withdrawals are similarly scheduled across the winter months; variances from normal weather may cause differentials between planned storage withdrawals and actual withdrawals. Therefore, specific Atmos storage levels are not a factor in determining hedging purchase decisions.

### *Data Summary of All Hedging Transactions*

Details of the hedging transactions are provided in Exhibit B. On Exhibit B, the November 2012 delivery month totals are the actual settlement. December 2012 through March 2013 are mark-to-market amounts based on the NYMEX prices for those months as of November 19, 2012. Actual settlements will vary as the delivery months of December 2012 through March 2013 settle. Exhibit C provides the accounting entries related to hedging activity for Atmos' Kentucky customers made from April 2012 through October 2012.

Exhibit A  
Case No. 2007-00551  
ATMOS ENERGY CORPORATION  
SUMMARY OF HEDGE TRANSACTIONS  
WINTER 2012-13

Redacted

Exhibit A  
Case No. 2007-00551  
ATMOS ENERGY CORPORATION  
SUMMARY OF HEDGE TRANSACTIONS  
WINTER 2012-13

Redacted

Confidential  
Market Price Date: 11/19/2012  
Transaction Date: 11/20/2012

Exhibit B  
Regulatory Contract

Case No. 2007-00551  
**Atmos Energy Corporation - Hedging Report**

Delivery Month is between 11/1/2012 and 3/1/2013 and Transaction Date is less than or equal to 11/20/2012

and State is equal to Kentucky  
This report contains all subreports.

Delivery Month: 11/1/2012

**Futures/Swaps**

Redacted

Negative market values are costs. Positive market values are benefits.

Confidential

Exhibit B

Case No. 2007-00551

11/1/2012

Delivery Month: 12/1/2012

Redacted

Negative market values are costs. Positive market values are benefits.

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Exhibit B

Case No. 2007-00551

12/1/2012

Delivery Month: 1/1/2013

Redacted

Confidential

Exhibit B

Case No. 2007-00551

1/1/2013

Delivery Month: 2/1/2013

Redacted

Confidential

Exhibit B

Case No. 2007-00551

2/1/2013

Delivery Month: 3/1/2013

Redacted

Negative market values are costs. Positive market values are benefits.

Redacted

*Negative market values are costs. Positive market values are benefits.*



Month \_\_\_\_\_ Name \_\_\_\_\_ Account \_\_\_\_\_ Sub Account \_\_\_\_\_ Category \_\_\_\_\_ Description \_\_\_\_\_ Total \_\_\_\_\_

Natural Gas Hedging Journal Entries

Redacted



Natural Gas Hedging Journal Entries

<u>Month</u>	<u>Name</u>	<u>Account</u>	<u>Sub Account</u>	<u>Category</u>	<u>Description</u>	<u>Total</u>
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Redacted

**Atmos Energy Corporation**  
**Kentucky Rate Division**

Natural Gas Hedging Journal Entries

Month      Name      Account      Sub Account      Category      Description      Total

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Atmos Energy Corporation				
Kentucky Rate Division				
Natural Gas Hedging Journal Entries				
Month	Name	Account	Sub Account	Category
				Description
				Total
				-

Redacted

**Atmos Energy Corporation**  
**Kentucky Rate Division**

Natural Gas Hedging Journal Entries

Month \_\_\_\_\_ Name \_\_\_\_\_ Account \_\_\_\_\_ Sub Account \_\_\_\_\_ Category \_\_\_\_\_ Description \_\_\_\_\_ Total \_\_\_\_\_

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